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Federal Communications Commission
Office of Secretary

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March 4, 1998

VIA COURIER

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

EX PARTE PRESENTATION

Re: CC Docket No. 96-128

Dear Ms. Salas:

On March 3, 1998, the undersigned counsel and co-counsel of this law firm, on behalf of the American Public Communications Council, Inc. ("APCC"), met with Mary Beth Richards, Acting Deputy Chief of the Common Carrier Bureau, and Craig Stroup of the Common Carrier Bureau's Industry Analysis Division.

During the meeting, we presented an historical overview of payphone regulation to date. Our discussions were limited to matters related to payphone regulation from an historical perspective, and the information contained in the presentation materials enclosed herewith.

If you desire any further information, please contact the undersigned.

Sincerely yours,

Albert Kramer

Albert H. Kramer

AHK/rw
Enclosure
cc: Mary Beth Richards
Craig Stroup

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A History of Payphone Compensation

Presented by the American Public Communications Council

TERMINOLOGY AND TYPES OF CALLS

Payphone Service Provider ("PSP")	The term that the Act and the Commission use to refer to both LEC payphone providers and independent, non-LEC payphone providers.
Independent Payphone Provider ("IPP")	Another frequently used, more-specific term for an independent, non-LEC payphone provider.
Local Coin Call	A local, non-toll call that a caller makes by depositing coins into the payphone's coin mechanism.
1+ Toll Calls	A long-distance call that a caller makes by depositing coins into the payphone's coin mechanism.
0+ Call	Any call the caller makes with the assistance of an operator, automated or live, by simply dialing 0+, the area code, and the phone number prior to entering a calling card number or other billing information. 0+ calls go to the operator service provider ("OSP") presubscribed to the payphone and chosen by the PSP.
Access Code Call	A call that uses a 10XXX code or access number (such as 1-800-CALL-ATT) to reach a carrier other than the one presubscribed to the payphone.
Subscriber 800 Call (including 888, 887, etc.)	A call that is toll-free to the caller, but billed to the subscriber/recipient.
Dial-Around Call	A term referring to calls in which the caller "dials around" the payphone's presubscribed carrier, i.e., both access code calls and subscriber calls.

Corresponds with Slides 2 - 4

COMPENSATION BEFORE THE 1996 ACT

Independent Payphone Service Providers	vs.	LEC Payphone Service Providers
o *Local Coin Calls*		o *Local Coin Calls*
Rate determined by the state commissions, often set below IPP's actual costs of providing service		Rates were determined by the state commissions as a part of the LEC's tariffed services and, consequently, generally subsidized by other services
o *Commissions for 0+ Calls*		o *Commissions for 0+ Calls*
State commissions often capped rates for intrastate calls		BOCs received no direct commissions for 0+ interLATA calls, but carried 0+ intraLATA calls
		MFJ restrictions prohibited the BOCs from having any relationship, including the receipt of commissions, with the OSPs presubscribed to their payphones
		IXCs/OSPs paid commissions directly to the premises owners, who chose presubscribed OSP
o *Toll Coin Calls*		o *Toll Coin Calls*
Relatively few of these calls		Relatively few of these calls

Corresponds with Slides 5 - 6

COMPENSATION BEFORE THE 1996 ACT (continued)

Independent Payphone Service Providers	vs.	LEC Payphone Service Providers
o ***FCC-Mandated Compensation for calls Interstate Access Code Calls and subscriber 800 calls ($6 flat rate per month per payphone) (June 1992)***		o ***Compensation for access code***
The Telephone Operator Consumer Services Improvement Act of 1990 ("TOCSIA") required PSPs (and other aggregators) to give callers the capability to access carriers other than those presubscribed to the payphone		LECs received "compensation" for interstate dial-around calls through the payphone-specific elements of the interstate access charges paid by IXCs, which cover the interstate portion of all NTS and related costs associated with payphones
FCC based the $6.00 flat-rate on an average of 15 access code calls per payphone per month at a rate of 40¢ per call		
o ***FCC erroneously ruled no compensation for subscriber 800 calls***		o ***Cost recovery for the LECs was "guaranteed"***
TOCSIA prevented the blocking of subscriber 800 calls, so PSPs had no leverage to negotiate compensation		All payphone costs and revenues intermixed with all local exchange service costs and revenues
The DC Circuit held in mid 1995 that the FCC had erred in not considering whether subscriber 800 calls should be compensated		Historically a subsidized service
Unfortunately, this holding came three years after PSPs should have been compensated for these calls		
The Commission only adopted a compensation plan for subscriber 800 calls as part of its implementation of the 1996 Act		

Corresponds with Slides 6 - 7

SECTION 276 OF THE ACT (as amended by the Telecommunications Act of 1996)

Statutory Goals of Section 276

- "[T]o promote competition among payphone service providers" and
- "[To] promote the widespread deployment of payphone services to the benefit of the general public"

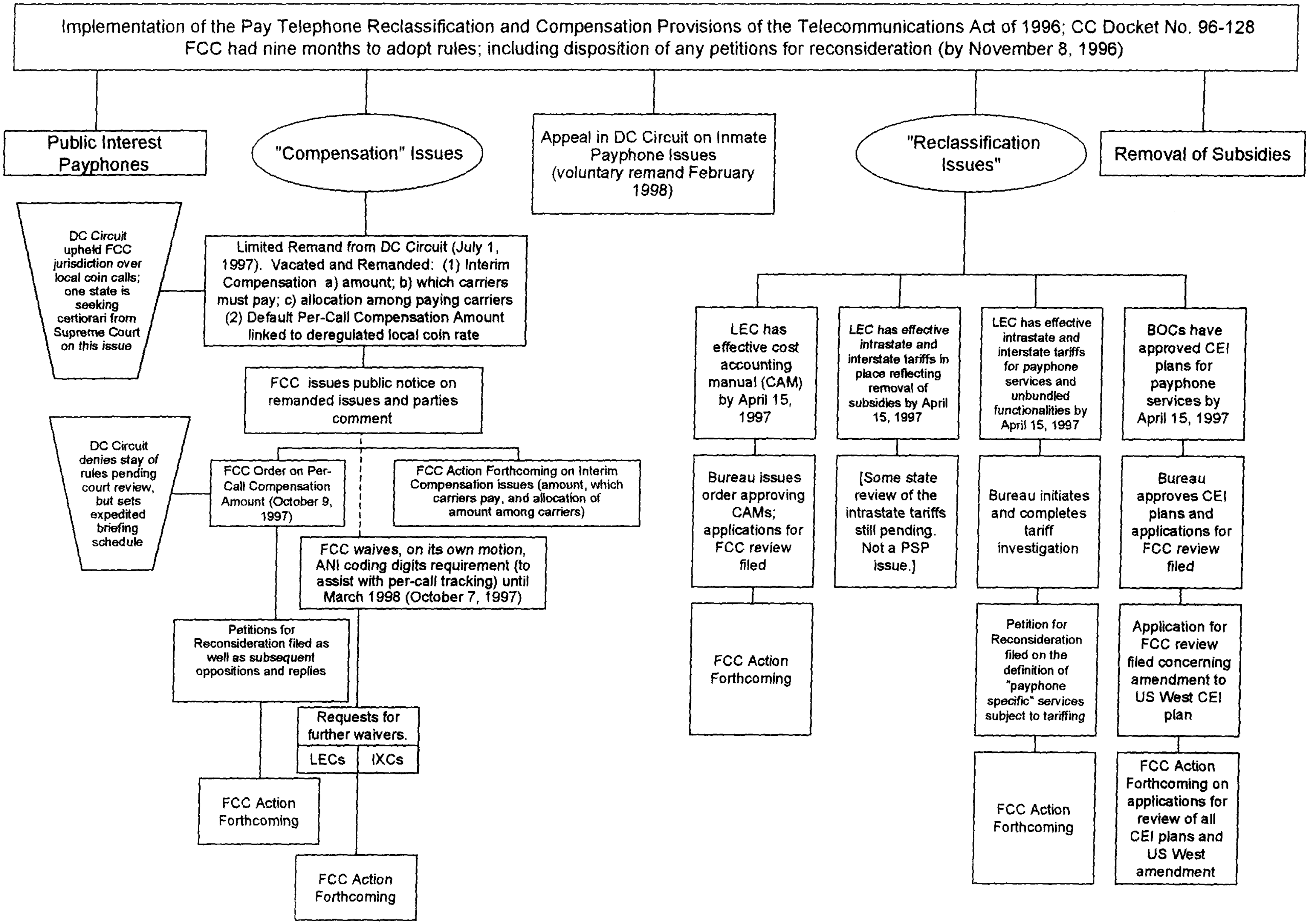
Mandates

- Mandates that PSPs receive "fair" compensation for "each and every completed *intra*state and interstate call" originated by their payphones. [Section 276(b)(1)(A)]
- Requires the termination of subsidies for LEC payphones. [Section 276(b)(1)(B)]
- No preference or discrimination in favor of LEC payphones [Section 276(a)(2)]
- Requires BOCs to provide payphone service pursuant to nonstructural safeguards. [Section 276(a)&(b)(1)(C)]
- Permits BOCs to select the interLATA carrier presubscribed to their payphones, if approved by FCC (which Commission has approved). [Section 276(b)(1)(D)]
- Permits all PSPs to select the intraLATA carrier presubscribed to their payphones. [Section 276(b)(1)(E)]
- Requires the Commission to determine whether "public interest payphones" should be maintained and, if so, ensure that they are supported fairly and equitably. [Section 276(b)(2)]
- All provisions of Section 276 expressly apply to "the provision of inmate telephone service in correctional institutions." [Section 276(d)]
- IPPs had been requesting for *10 years* that the Commission adopt the first three items of relief (with the exception of compensation for intrastate calls)

Statutory Deadline

- The Commission was given "9 months after the date of enactment of the Telecommunications Act of 1996" to "take all actions necessary (including any reconsideration) to prescribe regulations" to implement Section 276
- The Telecommunications Act was signed into law on February 8, 1996, giving the Commission until November 8, 1996 to complete its actions

Corresponds with Slides 8 - 11


Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996; CC Docket No. 96-128
FCC had nine months to adopt rules; including disposition of any petitions for reconsideration (by November 8, 1996)
Public Interest Payphones
"Compensation" Issues
Appeal in DC Circuit on Inmate Payphone Issues (voluntary remand February 1998)
"Reclassification Issues"
Removal of Subsidies
DC Circuit upheld FCC jurisdiction over local coin calls; one state is seeking certiorari from Supreme Court on this issue
Limited Remand from DC Circuit (July 1, 1997). Vacated and Remanded: (1) Interim Compensation a) amount; b) which carriers must pay; c) allocation among paying carriers (2) Default Per-Call Compensation Amount linked to deregulated local coin rate
FCC issues public notice on remanded issues and parties comment
DC Circuit denies stay of rules pending court review, but sets expedited briefing schedule
FCC Order on Per-Call Compensation Amount (October 9, 1997)
FCC Action Forthcoming on Interim Compensation issues (amount, which carriers pay, and allocation of amount among carriers)
FCC waives, on its own motion, ANI coding digits requirement (to assist with per-call tracking) until March 1998 (October 7, 1997)
Petitions for Reconsideration filed as well as subsequent oppositions and replies
Requests for further waivers.
LECs
IXCs
FCC Action Forthcoming
FCC Action Forthcoming
LEC has effective cost accounting manual (CAM) by April 15, 1997
LEC has effective intrastate and interstate tariffs in place reflecting removal of subsidies by April 15, 1997
LEC has effective intrastate and interstate tariffs for payphone services and unbundled functionalities by April 15, 1997
BOCs have approved CEI plans for payphone services by April 15, 1997
Bureau issues order approving CAMs; applications for FCC review filed
[Some state review of the intrastate tariffs still pending. Not a PSP issue.]
Bureau initiates and completes tariff investigation
Bureau approves CEI plans and applications for FCC review filed
FCC Action Forthcoming
Petition for Reconsideration filed on the definition of "payphone specific" services subject to tariffing
Application for FCC review filed concerning amendment to US West CEI plan
FCC Action Forthcoming
FCC Action Forthcoming on applications for review of all CEI plans and US West amendment

SECTION 276 OF THE ACT (continued)

Reclassification Issues (Implementation of Nonstructural Safeguards)

- As part of reclassifying their payphones as customer premises equipment ("CPE") and offering "coin line" transmission services to PSPs under a tariff, LECs are required to have
  - -- an effective cost accounting manual ("CAM")
  - -- effective intrastate and interstate tariffs in place for payphone services and unbundled functionalities
  - -- approved CEI plans for payphone services
- The Payphone Orders required all of these steps to be completed by April 15, 1997
  - -- Approved by the Common Carrier Bureau per delegated authority
- In each case, the Commission has pending petitions for reconsideration or applications for review

Removal of Subsidies

- The Commission directed the states to identify and remove any LEC subsidies for its provision of payphone service
- The speed of state efforts to remove these subsidies has varied
- There remains some questions at the state level of whether all of these subsidies have been removed in each instance

Public Interest Payphones

- Commission concluded that "there is a need to ensure the maintenance of payphones that serve the public policy interests of health, safety, and welfare where there would not otherwise be payphones as a result of the operation of the market."
- Left to the states the primary responsibility for administering and funding public interest payphone programs.
- States have two years from release of initial payphone order to "review whether [each] has adequately provided for public interest payphones in a manner consistent with the [Payphone Orders]."

Corresponds with Slides 13 - 15

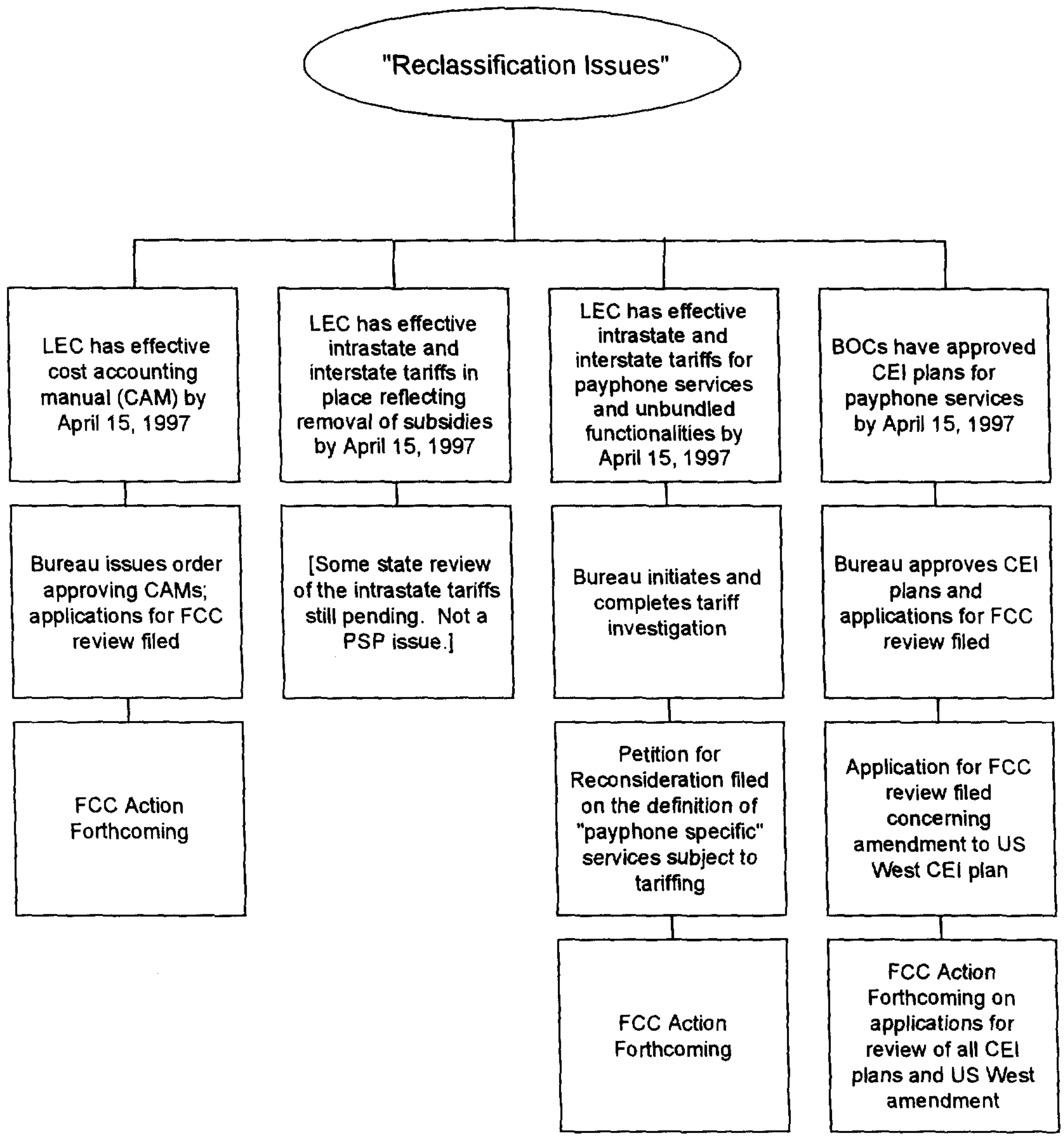
Inmate Phones

- o The Commission declined to provide a compensation element to cover costs that are unique to inmate payphones. Although inmate payphones are subject to the same general compensation rules as other payphones, unlike local coin calling, the issue of cost recovery for local and intrastate calls was left unaddressed

- o Inmate service providers have appealed this conclusion to the U.S. Court of Appeals for the D.C. Circuit

- o After the appeal was briefed, the Commission sought and was granted a voluntary remand

Corresponds with Slide 16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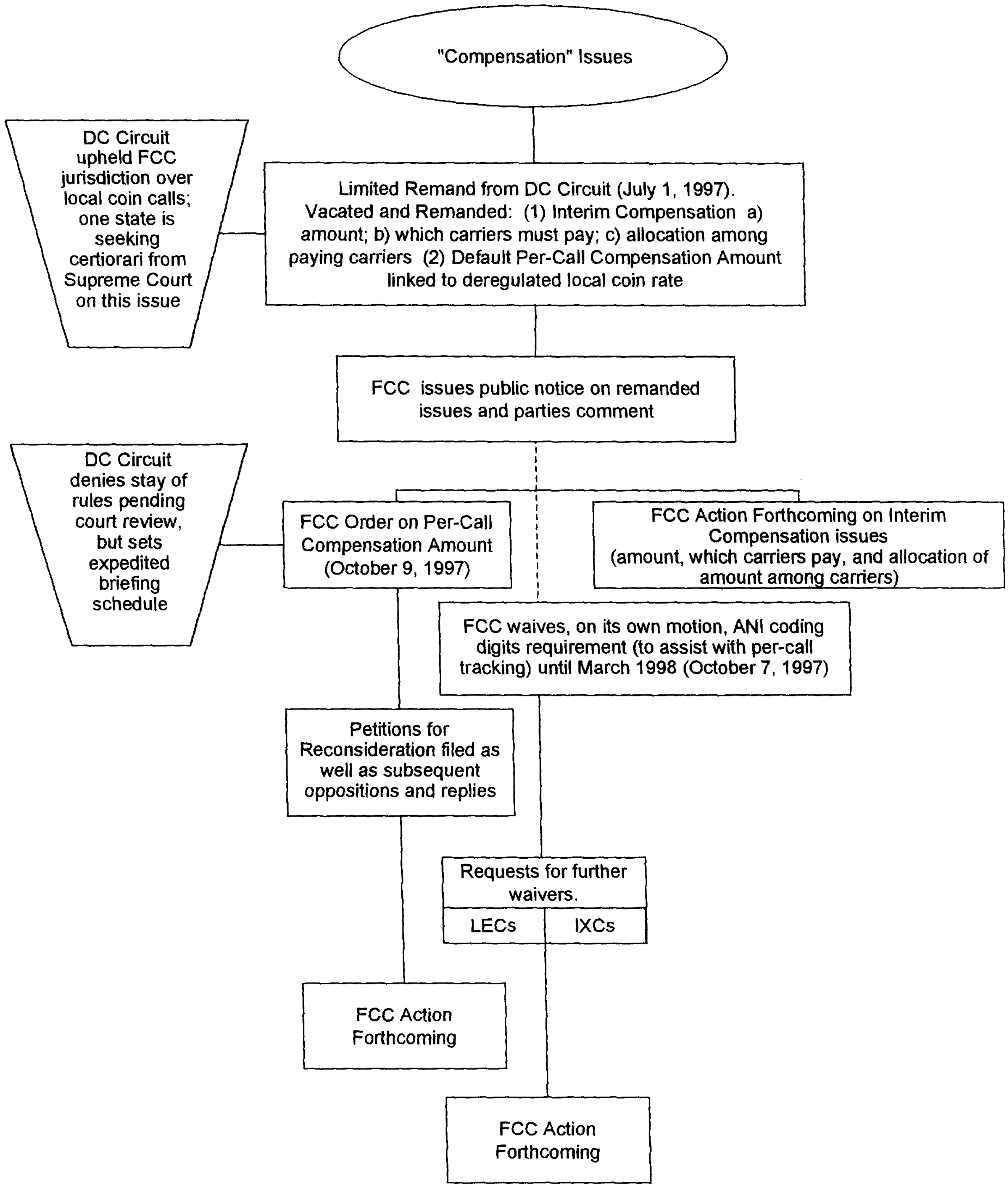
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LECs
IXCs
FCC Action Forthcoming
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COMPENSATION AFTER 1996 ACT, AS SET FORTH IN THE PAYPHONE ORDERS

"Fairly Compensated" for Each and Every Call

- **"Fair" compensation**
  - Defined by Commission as "where there is a willing seller and a willing buyer at a price agreeable to both." Payphone Order at para. 52.

- **Both independent PSPs and LEC PSPs receive compensation for all calls**
  - Once the LECs removed their payphone assets from the ratebase and complied with certain other requirements, as of April 15, 1997, they should be competing on the same terms as the independent PSPs (although some "reclassification" issues remain to be resolved)
  - LEC PSPs and IPPs are, therefore, entitled to receive the same "competitive market" compensation opportunities

- **Local Coin Calls**
  - PSP allowed to charge a market-based rate as of October 7, 1997
  - States are preempted from setting any rate or imposing rate ceilings
  - Some unresolved issues
    - * E.g., limits on initial increment of call

- **Per-call compensation for access code calls and subscriber 800 calls to be effective on October 7, 1997**
  - paid to PSP by the "facilities-based" carrier that bills the end user for the call
  - per-call default compensation rate equal to the local coin rate charged at payphone
  - initially set the default rate at 35¢ per call, which was the predominant deregulated local coin rate in four of the six states that had deregulated such rates at time of Commission action
  - default rate applies only in absence of an agreement between PSP and carrier to pay a different amount
  - after October 7, 1998, the default rate is eliminated in favor of the local coin rate at each payphone (later changed to October 7, 1999)

Corresponds with Slides 18 - 20

"Fairly Compensated" for Each and Every Call (continued)

- **Flat-rate interim compensation for access code calls and subscriber 800 calls for the first year of the Commission's rules (through October 6, 1997)**

  - To give all carriers an opportunity to implement a per-call tracking capability, the Commission delayed the beginning of "per-call" compensation for one year

  - The monthly flat-rate was based on an average number of 131 calls (x 35¢) originated by a payphone per month

  - The largest IXCs (those with annual toll revenues in excess of $100 million) were required to pay a proportional share of $45.85 per month per payphone to compensate these calls

- **Commissions on 0+ calls**

  - All PSPs permitted to receive 0+ commissions

COMPENSATION UNDER PAYPHONE ORDERS

"Fairly Compensated" for Each and Every Call

- **Coins for local calls**

  - PSP allowed to charge a market-based rate as of October 7, 1997
  - States are preempted from setting any rate or imposing rate ceilings

- **Per-call compensation for access code calls and subscriber 800 calls to be effective on October 7, 1997**

  - paid to PSP by the "facilities-based" carrier that bills the end user for the call
  - per-call default compensation rate equal to the local coin rate charged at payphone
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  - The largest IXCs (those with annual toll revenues in excess of $100 million) were required to pay a proportional share of $45.85 per month per payphone to compensate these calls
  - The monthly flat-rate was based on an average number of 131 calls originated by a payphone in a one-month period

- **Commissions on 0+ calls**

  - All PSPs permitted to receive 0+ commissions

DC CIRCUIT'S PARTIAL REMAND OF THE PAYPHONE PROCEEDING

- Twenty parties sought review of various aspects of the Commission's payphone orders in the U.S. Court of Appeals for the District of Columbia Circuit

- In an opinion announced on July 1, 1997, Illinois Public Telephone Association v. FCC, the Court upheld much of the Commission's (de)regulatory framework for the payphone industry, although it remanded some important issues

Court Upheld The Fundamental (De)Regulatory Framework Adopted by the Commission

- Federal jurisdiction over local coin calls (states are preempted from setting the local coin rate)

  - A single state has sought U.S. Supreme Court review of this holding

- A "carrier pays" compensation system (carriers compensate PSPs for dial-around calls originated by payphones)

Court Remanded Two Significant Issues to the Commission

- **The default compensation rate linked to the deregulated local coin rate *without an analysis of the cost differences* between coin and coinless calls**

  - Some parties, particularly the IXCs, argue that the Court rejected use of the local coin rate, or any market-based surrogate, as the basis for compensation

- **The interim flat-rate compensation mechanism**

  - Amount of interim compensation, which was based on the deregulated local coin rate, as remanded by the Court

  - Which carriers must pay

    - Why carriers with less than $100 million in annual toll revenues were excluded

  - Allocation of interim compensation among carrier-payors

    - Relationship between annual toll revenues and dial-around calls

Corresponds with Slides 22 - 23

COMMISSION'S REMAND ORDER

- o After notice and comment, on October 9, 1997, the Commission adopted a Second Report and Order in response to the Court's remand

Per-Call Compensation Rate

- o Concluded that the default compensation rate for dial-around call should continue to be linked to the deregulated local coin rate at each payphone after adjustment for the costs differences between coin calls and dial-around calls

- o Adopted a per-call compensation rate for PSPs that is almost 20% *less* than the rate originally prescribed

  - -- 35¢ (prevailing deregulated local coin rate) minus approximately 8.4¢ (avoided costs) plus 1.8¢ extra costs equals 28.4¢ per call

  - -- "Avoided costs" include expenses associated with the payphone's coin mechanism, coin collection costs, and local usage costs

  - -- Extra costs include cost to PSPs of providing tracking capability to carriers

  - -- The per-call default compensation rate is extended to October 7, 1999, although parties can mutually agree to an alternative compensation rate at any time

Interim Compensation

- o Deferred consideration of all interim compensation issues to a subsequent order

  - -- Tentatively concluded that the 28.4¢ per-call compensation rate should apply to interim period

  - -- Commission has an adequate record before it to proceed (filed in response to the August 1997 post-remand public notice soliciting comment)

  - -- There is a general consensus among the commenters that PSPs continue to be legally entitled to compensation for the period of October 7, 1996 through October 6,1997

  - -- *Prompt resolution of these interim compensation issues is crucial to the continuing viability of independent PSPs*

Status of Interim Compensation Payments After the Remand Order

- o PSPs have been without significant revenue for large portions of the interim compensation period

Corresponds with Slides 24 - 26

STATUS OF INTERIM COMPENSATION PAYMENTS: QUARTER BY QUARTER

4th Quarter 1996

-- AT&T, MCI, Sprint paid

-- Many of the remaining IXCs-payors paid, but some did not

-- PSPs received approximately $43.84 per payphone per month, as opposed to the $45.85 under the Payphone Orders

1st Quarter 1997

-- Only AT&T, MCI, Sprint, and three smaller carriers paid

-- PSPs received approximately $37.67 per payphone per month

-- the DC Circuit's remand decision interrupted some payments

2nd Quarter 1997

-- AT&T, MCI, Sprint, and Alascom each paid a reduced rate, which they unilaterally pegged at $0.10 - $0.12 per call (using the FCC's average of 131 calls per month), depending on the carrier

-- These reduced payments translated into a flat rate of $10.84 per payphone per month, as opposed to the $45.85 under the Payphone Orders

3rd Quarter 1997

-- AT&T, MCI, Alascom each paid their reduced rates

-- PSPs received a flat rate of $9.42 per payphone per month

4th Quarter 1997

-- Because the Common Carrier Bureau has delayed the effective date of per-call compensation for all independently provided payphones ("IPPs"), due to the inability of LECs and IXCs to agree on a call-tracking methodology (as will be discussed below), "interim," flat-rate compensation will have to continue for some payphones

-- Unfortunately, many IPPs cannot be paid for the 4th quarter of 1997 because the Commission has not determined the amount or how the flat-rate compensation is to be allocated among carrier-payors

-- The lack of a cash flow for the "interim" is having a significant impact on IPPs beyond the interim period

Corresponds with Slides 27 - 29

FACILITATING PAYMENT OF COMPENSATION

ANI Coding Digits

- o Within the "originating line number," i.e., the automatic number identification ("ANI"), which must be delivered by the LEC central office switch to the carrier receiving the call, are two coding digits that signify that the call has been originated by a payphone or a restricted line

- o Effective with the commencement of per-call compensation on October 7, 1997, the Payphone Orders require carriers to track the calls for which they pay compensation, and the LECs to provide these carriers with the appropriate coding digits

  - -- The carrier-payers and the LECs have engaged in a lengthy, unproductive debate about what kind of network upgrades are needed to transmit payphone-specific coding digits

- o Under the existing system, which is fraught with residual discrimination, LEC payphone calls can be tracked with payphone-specific coding digits, while independent payphone calls have been assigned digits that are not payphone specific

  - -- LEC payphone lines, which are generally central-office controlled "dumb" payphones, transmit a "27" code from the LEC central office switch

  - -- For independent payphone liness, which are generally "smart" payphones with the intelligence in the set, the LEC central office transmits a "07" code, which is not specific to payphones, but merely indicates that the line is "restricted," e.g., hospital phones, hotel phones, or payphones

- o On October 7, 1997, the Common Carrier Bureau adopted an order on its own motion that waived the obligation for LECs to provide the coding digits, until March 1998, for LECs that are currently unable do so

  - -- The Bureau also sought comment on the appropriate resolution of the issues surrounding the availability of payphone-specific coding digits

  - -- Bureau action on this matter is pending

  - -- Several carriers have sought a waiver to continue paying flat-rate compensation in light of the waiver for the LECs

- o Because the coding digits at issue are associated with lines used overwhelmingly by independent PSPs, many independent PSPs are not receiving compensation at all.

  - -- A lack of coding digits precludes payment of per-call compensation for IPPs

  - -- Therefore, IPPs functionally remain on an interim-like, flate-rate payment system

  - -- "Interim" flat-rate compensation will not be paid until the Commission allocates the monthly compensation amount among the carrier-payors

Corresponds with Slides 30 - 33

APCC's PROPOSAL FOR 4TH QUARTER COMPENSATION

- Independent PSPs are entitled to fair and timely compensation, despite LECs' failure to provide payphone-specific ANI codes for "dumb" lines connected to IPPs' "smart" payphones.

  -- Fair and timely compensation can be provided without undue administrative burden, under the following proposal.

- As a condition of waiving the per-call compensation requirement, carriers that cannot track calls from "smart" payphones ("dumb" lines) should pay IPPs flat-rate compensation based on record data showing 152 calls per month.

- Flat-rate compensation of $43.17 per month should be provisionally allocated among carriers (including LECs) with more than $100 million annual toll revenues based on their relative shares of toll revenues.

- Carrier allocations (but not the overall level of compensation) should be subject to a true-up based on currently required carrier reports (required March 31, 1998) of actual call volumes from "dumb" payphones ("smart" lines).

Corresponds with Slides 34 - 35

WHERE DOES THE PAYPHONE COMPENSATION MONEY COME FROM?

Annual Cost of Payphone Compensation for Dial-Around Calls

- o Using the Commission's conservative, somewhat out-of-date average of 131 dial-around calls per payphone per month multiplied by 28.4¢ per call, yields $37.20 per payphone per month
- o $37.20 multiplied by the 12 months of the year is $446.45
- o For the approximately 2.223 million payphones nationwide, annual compensation is approximately $992 million ($446.45 x 2,223,000 payphones)
- o Using 152 dial-around calls per payphone per month, as proposed by APCC, the total cost of annual compensation would be approximately $1.15 billion

Corresponds with Slides 36 - 37

WHERE DOES THE PAYPHONE COMPENSATION MONEY COME FROM? (continued)

Recovery Method #1: **Raise Rates**

- o The IXCs, most notably AT&T, MCI, and Sprint have raised their rates for subscriber 800 and some interstate and international services
- o These rate increases were, as acknowledged by the carriers themselves, a specific response to the Payphone Orders
- o Calculations performed by Frost & Sullivan, based on AT&T public statements, valued these rate increases, for AT&T alone, at $642 million in just 1997 (annualized to about $900 million)

Recovery Method #2: **Pay Less in Access Charges**

- o The Commission's rules terminated all subsidies for payphone operations, which has amounted to a payphone-specific reduction in access charges paid by IXCs to LECs of over $250 million
  - -- This reduction is distinct from reductions associated with CC Docket No. 96-262
- o Additional subsidies were terminated at the state level
- o The IXCs have not passed on any portion of these significant intrastate and interstate access charge cost reductions on to their customers, which is contrary to the pledge they made in the Commission's access charge reform proceeding

Corresponds with Slides 38 - 39

WHERE DOES THE PAYPHONE COMPENSATION MONEY COME FROM? (continued)

Recovery Method #3: **Savings in Commissions Due to Migrating 0+ Traffic to Access Code Calls**

- Pursuant to individual contracts, IXCs pay commissions to PSPs for 0+ calls
  - The Commission estimated in 1992 that AT&T's average commission payment on a 0+ call was about 40¢
- IXCs have trained their customers to dial an access number to reach the carrier (such as 1-800-CALL-ATT), even when the payphone is already presubscribed to the same carrier
  - Dialing-around by callers allows the carrier to bypass 0+ commission payments, which reduces its overall costs for payphone-originated calls
- In 1993, according to APCC data, the average IPP *originated 51 commissionable 0+ calls*
- By 1997, the same data show that this IPP average had *fallen to 16 commissionable 0+ calls!*
  - This *69 % reduction in commissionable 0+ calls* has dramatically lowered an IXC's costs -- directly out of the pockets of the PSPs
  - The monthly 35 call shortfall at each payphone translates into *annual 0+ commission savings for the IXCs of approximately $372 million*[1]
- Once again, the IXCs have not passed on these savings to their customers

Corresponds with Slides 40 - 41

[1] 35 calls per month x 40¢ per call x 12 months of the year x 2.223 million payphones = approximately $372 million

WHERE DOES THE PAYPHONE COMPENSATION MONEY COME FROM? (continued)

Recovery Method #4: **Impose Per-Call Surcharges on Callers and Subscribers**

- Almost all of the IXCs place a surcharge on callers who originate calls from payphones and on 800 subscribers who receive such calls

- The amount of these surcharges often exceeds the 28.4¢ per call default rate established by the Commission

  - At present, IXCs can track all dial-around calls (with "27" ANI coding digits) from 60% of payphones

  - IXCs can also track all access code calls (which are roughly one third of all dial-around calls) from the remaining 40% of the payphones

  - Thus, IXCs can currently track about 70% of all dial-around calls and are passing on the per-call compensation costs for these calls directly to the end users in the form of a surcharge

  - Once the ANI coding digit waivers expire, IXCs should be able to track all, or virtually all, dial-around calls and will impose a surcharge for them

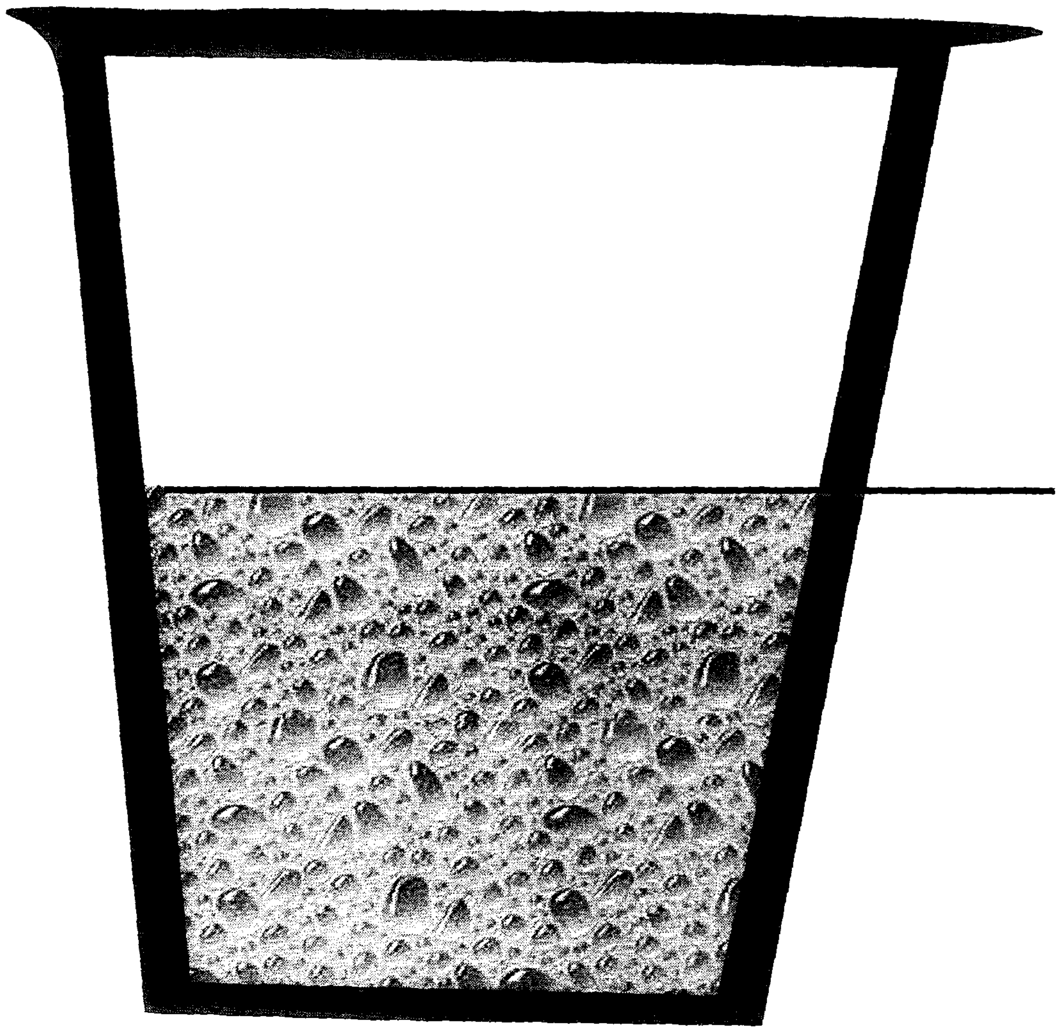
WHERE DOES THE PAYPHONE COMPENSATION MONEY COME FROM? (continued)

Quadruple Dipping?

- o *These four strategies to recover the costs of payphone compensation have been applied by the IXCs simultaneously*
- o "Quadruple dipping" by the IXCs has netted far more than the "costs" of payphone compensation payments to the PSPs
- o Despite their claims of financial injury, the IXCs have converted the payphone compensation mechanism as an opportunity to *increase* their revenues

Corresponds with Slide 44

BREAKING EVEN



By recovering $992 million dollars per year, the IXCs break even on payphone compensation costs.